

**§ 1.142-1 Exempt facility bonds.**

(a) *Overview.* Interest on a private activity bond is not excludable from gross income under section 103(a) unless the bond is a qualified bond. Under section 141(e)(1)(A), an exempt facility bond issued under section 142 may be a qualified bond.

Under section 142(a), an exempt facility bond is any bond issued as a part of an issue using 95 percent or more of the proceeds for certain exempt facilities.

(b) *Scope.* Sections 1.142-0 through 1.142-3 apply for purposes of the rules for exempt facility bonds under section 142, except that, with respect to net proceeds that have been spent, § 1.142-2 does not apply to bonds issued under section 142(d) (relating to bonds issued to provide qualified residential rental projects) and section 142(f) (2) and (4) (relating to bonds issued to provide local furnishing of electric energy or gas).

(c) *Effective dates.* For effective dates of §§ 1.142-0 through 1.142-2, see § 1.141-16.

[T.D. 8712, 62 FR 2302, Jan. 16, 1997]

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**§ 1.142-1 Husband and wife.**

(a) In the case of husband and wife, if the tax of one spouse is determined under section 1 or 1201 on the basis of the taxable income computed without regard to the standard deduction, the other spouse may not elect to take the standard deduction. If a joint return is filed and election made thereon to take the standard deduction, such deduction shall, subject to the limitations of section 141 and the regulations thereunder, be determined by reference to the aggregate adjusted gross income of both spouses. The filing of either a separate or joint return on Form 1040A constitutes an election to take the standard deduction and, if the adjusted gross income shown on the return is less than \$10,000 (\$5,000 for taxable years beginning before January 1, 1971) an election to pay the optional tax imposed by section 3. See the regulations under section 4 for rules relating to elections to pay the optional tax imposed by section 3.

(b) If each spouse files a separate individual income tax return (Form 1040 or 1040A), both spouses must elect to take the standard deduction or both spouses are denied the standard deduction. Thus, if one spouse files

a return on Form 1040 and does not elect to take the standard deduction, the other spouse may not elect to take the standard deduction and, hence, may not file a return on Form 1040A. For example, if A and his wife B have adjusted gross incomes of \$6,000 and \$3,500, respectively, from wages subject to withholding and A files a return on Form 1040 and does not elect thereon to take the standard deduction, B may not file her return on Form 1040A, but must file on Form 1040 and compute her tax without regard to the standard deduction. In such case, however, if both elect to take the standard deduction either taxpayer may file on Form 1040 or 1040A, but B's tax must be computed on the basis of the applicable tax table in section 3. See § 1.4-3 for rules relating to the computation of the optional tax when a husband and wife file separate returns.

(c) The restriction upon the right of a married person to elect the standard deduction in his separate return is applicable with respect to the taxable years of the husband and wife ending in the same calendar year, except that in the event of the death of one spouse the restriction is applicable with respect to the taxable year ended with death and the taxable year of the surviving spouse in which such death occurs. The restriction applies unless the spouses are legally separated under a decree of divorce or separate maintenance. For determination of marital status, see § 1.143-1.

[T.D. 6500, 25 FR 11402, Nov. 26, 1960, as amended by T.D. 6792, 30 FR 531, Jan. 15, 1965; T.D. 7269, 38 FR 9295, Apr. 13, 1973]

**§ 1.142-2 Remedial actions.**

(a) *General rule.* If less than 95 percent of the net proceeds of an exempt facility bond are actually used to provide an exempt facility, and for no other purpose, the issue will be treated as meeting the use of proceeds requirement of section 142(a) if the issue meets the condition of paragraph (b) of this section and the issuer takes the remedial action described in paragraph (c) of this section.

(b) *Reasonable expectations requirement.* The issuer must have reasonably expected on the issue date that 95 percent of the net proceeds of the issue would be used to provide an exempt facility and for no other purpose for the entire term of the bonds (disregarding any redemption provisions). To meet this condition the amount of the issue must have been based on reasonable estimates about the cost of the facility.

(c) *Redemption or defeasance*—(1) *In general.* The requirements of this paragraph (c) are met if all of the nonqualified bonds of the issue are redeemed on the earliest call date after the date on which the failure to properly use the proceeds occurs under paragraph (d) of this section. Proceeds of tax-exempt bonds (other than those described in paragraph (d)(1) of this section) must not be used for this purpose. If the bonds are not redeemed within 90 days of the date on which the failure to properly use proceeds occurs, a defeasance escrow must be established for those bonds within 90 days of that date.

(2) *Notice of defeasance.* The issuer must provide written notice to the Commissioner of the establishment of the defeasance escrow within 90 days of the date the escrow is established.

(3) *Special limitation.* The establishment of a defeasance escrow does not satisfy the requirements of this paragraph (c) if the period between the issue date and the first call date is more than 10½ years.

(4) *Special rule for dispositions of personal property.* For dispositions of personal property exclusively for cash, the requirements of this paragraph (c) are met if the issuer expends the disposition proceeds within 6 months of the date of the disposition to acquire replacement property for the same qualifying purpose of the issue under section 142.

(5) *Definitions.* For purposes of paragraph (c)(4) of this section, *disposition proceeds* means disposition proceeds as defined in § 1.141-12(c).

(d) *When a failure to properly use proceeds occurs*—(1) *Proceeds not spent.* For net proceeds that are not spent, a failure to properly use proceeds occurs on the earlier of the date on which the issuer reasonably determines that the financed facility will not be completed or the date on which the financed facility is placed in service.

(2) *Proceeds spent.* For net proceeds that are spent, a failure to properly use proceeds occurs on the date on which an action is taken that causes the bonds not to be used for the qualifying purpose for which the bonds were issued.

(e) *Nonqualified bonds.* For purposes of this section, the nonqualified bonds

are a portion of the outstanding bonds in an amount that, if the remaining bonds were issued on the date on which the failure to properly use the proceeds occurs, at least 95 percent of the net proceeds of the remaining bonds would be used to provide an exempt facility. If no proceeds have been spent to provide an exempt facility, all of the outstanding bonds are nonqualified bonds. The nonqualified bonds must be determined on a pro rata allocation basis, except that an issuer may treat bonds with longer maturities (determined on a bond-by-bond basis) as the nonqualified bonds.

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#### § 1.142-2 Standard deduction not allowable.

The standard deduction is not allowable in the case of—

(a) A nonresident alien individual (including one who enters and leaves the United States at frequent intervals);

(b) A citizen of the United States entitled to the benefits of section 931;

(c) A taxable year of less than 12 months where such taxable year arises because of a change in accounting period under section 443(a)(1); or

(d) An estate or trust, common trust fund, or partnership.

#### § 1.142-3 Refunding Issues. [Reserved]

#### § 1.142(a)(5)-1 Exempt facility bonds: Sewage facilities.

(a) *In general.* Under section 103(a), a private activity bond is a tax-exempt bond only if it is a qualified bond. A qualified bond includes an exempt facility bond, defined as any bond issued as part of an issue 95 percent or more of the net proceeds of which are used to provide a facility specified in section 142. One type of facility specified in section 142(a) is a sewage facility. This section defines the term *sewage facility* for purposes of section 142(a).

(b) *Definitions*—(1) *Sewage facility defined.* A sewage facility is property—

(i) Except as provided in paragraphs (b)(2) and (d) of this section, used for the secondary treatment of wastewater; however, for property